Since 2007, mortgage delinquencies and foreclosures increased significantly with the deterioration in the U.S. housing market. Among other factors, a high unemployment rate has contributed to this landscape by reducing borrowers’ incomes, and a persistently high rate will continue to have negative effects. However, some recent developments, including a sharp decline in long-term delinquencies, suggest that there may be an end in sight for the foreclosure woes.

The chart shows data from the past decade: serious delinquencies (more than 90 days), foreclosure starts (when lenders have started foreclosure proceedings), and foreclosure inventory (completed foreclosures). During the 2001 recession, the delinquency rate and foreclosure inventory increased somewhat. In the most recent episode, from the start of the subprime mortgage crisis in 2007, delinquencies have increased fivefold, as both the number of households entering delinquency and the average duration of that delinquency have increased. Yet, the number of foreclosure starts has become more volatile and has actually not kept pace with the number of seriously delinquent mortgages.

Ultimately, the national foreclosure rate doesn’t depend solely on the borrower’s ability to pay. Lenders’ willingness to negotiate also affects the end result, as do their incentives and legal obligations.

When a borrower defaults on a loan, the lender has the choice to foreclose, but foreclosure is a complex process that varies by state: Borrowers must be notified of impending foreclosure, usually three to six months after the first missed payment. And, depending on the state, foreclosure actions may be judicial, which requires court approval, or non-judicial, which is an administrative matter independent of the courts.

In addition, lenders have found it difficult to handle the recent volume of foreclosures. Many mortgage lenders and servicers have placed moratoria on foreclosure proceedings after defective procedures were discovered; perhaps most visible was the “robo-signing” scandal in which bank employees processed thousands of foreclosure documents without evaluating their accuracy. For a limited number of borrowers, government programs have reduced foreclosures, although many analysts are skeptical these programs have had a significant effect. A final observation concerns the cost of foreclosure. Contrary to popular perception, the foreclosure process can be very costly for a lender. A number of states have anti-deficiency laws that prevent the lender from recovering the difference between the final (post-foreclosure) sale price and the outstanding balance of the mortgage. An alternative for the lender is to renegotiate the loan, a process that often is less costly than outright foreclosure—by some estimates, there is a sevenfold difference between modification write-offs and foreclosure losses. Therefore, it remains a puzzle as to why such large numbers of mortgages in default enter into foreclosure in the first place.

Although the recent data must be viewed with caution, fewer serious delinquencies and a slowing of foreclosures may indicate a more beneficial balance between the needs of borrowers and lenders.

—Rajdeep Sengupta and Bryan J. Noeth

1 According to Lender Processing Services, the average duration of seriously delinquent loans has jumped from 192 days in early 2008 to 374 days as of April 2011.


Conventions used in this publication:

1. Unless otherwise indicated, data are monthly.

2. Shaded areas indicate recessions, as determined by the National Bureau of Economic Research.

3. Percent change at an annual rate is the simple, not compounded, monthly percent change multiplied by 12. For example, using consecutive months, the percent change at an annual rate in \( x \) between month \( t-1 \) and the current month \( t \) is: \( \left( \frac{x_t}{x_{t-1}} \right) - 1 \) \times 1200. Note that this differs from National Economic Trends. In that publication, monthly percent changes are compounded and expressed as annual growth rates.

4. The percent change from year ago refers to the percent change from the same period in the previous year. For example, the percent change from year ago in \( x \) between month \( t-12 \) and the current month \( t \) is: \( \left( \frac{x_t}{x_{t-12}} \right) - 1 \) \times 100.

We welcome your comments addressed to:

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Federal Reserve Bank of St. Louis
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St. Louis, MO 63166-0442

or to:

stlsFRED@stls.frb.org

On March 23, 2006, the Board of Governors of the Federal Reserve System ceased the publication of the M3 monetary aggregate. It also ceased publishing the following components: large-denomination time deposits, RPs, and eurodollars.
M2 and MZM

Billions of dollars

Adjusted Monetary Base

Percent change at an annual rate

Reserve Market Rates

Percent

Real Treasury Yield Curve

Percent

Inflation-Indexed Treasury Yield Spreads

Percent

Note: Effective December 16, 2008, FOMC reports the intended Federal Funds Rate as a range.
Monetary Trends

M1
Percent change from year ago

MZM
Percent change from year ago

M2
Percent change from year ago

Monetary Services Index - M2**
Percent change from year ago

**We will not update the MSI series until we revise the code to accommodate the discontinuation of M3.
Monetary Trends

Adjusted and Required Reserves
Billions of dollars

Total Borrowings, nsa
Billions of dollars

Excess Reserves plus RCB Contracts
Billions of dollars

Nonfinancial Commercial Paper
Percent change from year ago

Consumer Credit
Percent change from year ago

As of April 10, 2006, the Federal Reserve Board made major changes to its commercial paper calculations. For more information, please refer to http://www.federalreserve.gov/releases/cp/about.htm.
Net Percentage of Domestic Banks Tightening Standards for Commercial and Industrial Loans

Percentage

Net Percentage of Domestic Banks Tightening Standards for Commercial Real Estate Loans

Percentage

Net Percentage of Domestic Banks Tightening Standards for Residential Mortgage Loans

Percentage

Net Percentage of Domestic Banks Tightening Standards for Consumer Loans

Percentage
CPI Inflation and 1-Year-Ahead CPI Inflation Expectations

The shaded region shows the Humphrey-Hawkins CPI inflation range. Beginning in January 2000, the Humphrey-Hawkins inflation range was reported using the PCE price index and therefore is not shown on this graph.

10-Year Ahead PCE Inflation Expectations and Realized Inflation

See the notes section for an explanation of the chart.

Treasury Security Yield Spreads

Real Interest Rates

Percent, Real rate = Nominal rate less year-over-year CPI inflation
Federal Funds Rate and Inflation Targets

Calculated federal funds rate is based on Taylor's rule.

Components of Taylor's Rule

Actual and Potential Real GDP

Billion of chain-weighted 2005 dollars

PCE Inflation

Percent change from year ago

See notes section for further explanation.

Monetary Base Growth and Inflation Targets

Calculated base growth is based on McCallum's rule. Actual base growth is percent change from the previous quarter.

*Actual values for 2008:Q4, 2009:Q1, 2009:Q4, and 2011:Q1 are 188.02 percent, 60.74 percent, 56.52 percent, and 45.94 percent, respectively.

Components of McCallum's Rule

Monetary Base Velocity Growth

Real Output Growth

Percent change from year ago
**Implied One-Year Forward Rates**

![Graph showing implied one-year forward rates with data points for 2y, 3y, 5y, 7y, and 10y, with lines indicating different weeks ending on 06/28/11, 05/27/11, and 06/24/11.]

**Rates on 3-Month Eurodollar Futures**

![Graph showing rates on 3-month eurodollar futures with a line indicating data from Jun 2011 to 06/27, with markers for Aug 2011, Jul 2011, and Jun 2011, and a trend line for 06/17/2011, 05/13/2011, and 04/15/2011.]

**Rates on Selected Federal Funds Futures Contracts**

![Graph showing rates on selected federal funds futures contracts with a line indicating data from 06/24/11 to 06/27, with markers for Aug 2011, Jul 2011, and Jun 2011, and a trend line for 04/25, 05/02, 05/09, 05/16, 05/23, 05/30, 06/06, 06/13, 06/20, and 06/27.]

**Rates on Federal Funds Futures on Selected Dates**

![Graph showing rates on federal funds futures on selected dates with a line indicating data from 06/17/2011 to 05/13/2011, with markers for 04/15/2011, 06/17/2011, and 05/13/2011.]

**Inflation-Indexed Treasury Securities**

![Graph showing inflation-indexed treasury securities with data from 2009 to 2012, with markers for 2009, 2010, 2011, and 2012, and a note indicating yields are inflation-indexed constant maturity U.S. Treasury securities.]

**Inflation-Indexed 10-Year Government Notes**


**Inflation-Indexed Treasury Yield Spreads**

![Graph showing inflation-indexed treasury yield spreads with data from 2007 to 2012, with markers for 2007, 2008, 2009, 2010, and 2011, and a note indicating yield spread is between nominal and inflation-indexed constant maturity U.S. Treasury securities.]

Note: Data is temporarily unavailable for the French and U.K. 10-Year Notes and Government Yield Spreads.
### Monetary Trends

**Updated through 06/28/11**

**Velocity**
Nominal GDP/MZM, Nominal GDP/M2 (Ratio Scale)

- **MZM**
- **M2**

**Interest Rates**
Percent

- **3-Month T-Bill**
- **M2 Own**
- **MZM Own**

**MZM Velocity and Interest Rate Spread**
Ratio Scale

- 1974Q1 to 1993Q4
- 1994Q1 to present

**M2 Velocity and Interest Rate Spread**
Ratio Scale

- 1974Q1 to 1993Q4
- 1994Q1 to present

**MZM**
Nominal GDP / MZM, Nominal GDP / M2 (Ratio Scale)

**Interest Rate Spread**
Interest Rate Spread = 3-Month T-Bill less MZM Own Rate

**M2**
Interest Rate Spread = 3-Month T-Bill less M2 Own Rate
Monetary Trends

Gross Domestic Product
Percent change from year ago

Real Gross Domestic Product
Percent change from year ago

Gross Domestic Product Price Index
Percent change from year ago

M2
Percent change from year ago

Dashed lines indicate 10-year moving averages.
Bank Credit
Percent change from year ago

Investment Securities in Bank Credit at Commercial Banks
Percent change from year ago

Total Loans and Leases in Bank Credit at Commercial Banks
Percent change from year ago

Commercial and Industrial Loans at Commercial Banks
Percent change from year ago
Monetary Trends

**Standard & Poor's 500**

![Graph of Standard & Poor's 500](image)

**Recent Inflation and Long-Term Interest Rates**

<table>
<thead>
<tr>
<th>Country</th>
<th>Consumer Price Inflation Rates</th>
<th>Long-Term Government Bond Rates</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Percent change from year ago</td>
<td>Percent</td>
</tr>
<tr>
<td></td>
<td>2010Q2 2010Q3 2010Q4 2011Q1</td>
<td>Feb11 Mar11 Apr11 May11</td>
</tr>
<tr>
<td>United States</td>
<td></td>
<td>3.58 3.41 3.46 3.17</td>
</tr>
<tr>
<td>Canada</td>
<td></td>
<td>3.41 3.26 3.35 .</td>
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<tr>
<td>France</td>
<td></td>
<td>3.60 . . .</td>
</tr>
<tr>
<td>Germany</td>
<td></td>
<td>3.20 3.21 3.34 .</td>
</tr>
<tr>
<td>Italy</td>
<td></td>
<td>4.73 4.88 4.84 .</td>
</tr>
<tr>
<td>Japan</td>
<td></td>
<td>1.24 1.21 . .</td>
</tr>
<tr>
<td>United Kingdom</td>
<td></td>
<td>3.87 3.72 . .</td>
</tr>
</tbody>
</table>

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**Inflation and Long-Term Interest Rate Differentials**

![Graph of Inflation and Long-Term Interest Rate Differentials](image)
<table>
<thead>
<tr>
<th>Year</th>
<th>M1</th>
<th>MZM</th>
<th>M2</th>
<th>M3*</th>
<th>Bank Credit</th>
<th>Adjusted Monetary Base</th>
<th>Reserves</th>
<th>MSI M2**</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>1374.188</td>
<td>7001.798</td>
<td>6866.541</td>
<td>10270.74</td>
<td>7697.334</td>
<td>835.035</td>
<td>94.908</td>
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<tr>
<td>2007</td>
<td>1372.137</td>
<td>7636.258</td>
<td>7299.208</td>
<td></td>
<td>8462.691</td>
<td>850.529</td>
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<td></td>
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<tr>
<td>2008</td>
<td>1433.111</td>
<td>8709.467</td>
<td>7818.237</td>
<td></td>
<td>9122.596</td>
<td>1010.131</td>
<td>232.536</td>
<td></td>
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<tr>
<td>2009</td>
<td>1636.776</td>
<td>9543.240</td>
<td>8434.235</td>
<td></td>
<td>9192.134</td>
<td>1796.541</td>
<td>944.770</td>
<td></td>
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<tr>
<td>2010</td>
<td>1743.629</td>
<td>9540.770</td>
<td>8631.144</td>
<td></td>
<td>9138.281</td>
<td>2031.696</td>
<td>1144.110</td>
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</table>

<table>
<thead>
<tr>
<th>Year</th>
<th>Money Stock</th>
<th>Bank Credit</th>
<th>Adjusted Monetary Base</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>1577.790</td>
<td>9402.206</td>
<td>8354.327</td>
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<tr>
<td>2010</td>
<td>1698.709</td>
<td>9479.752</td>
<td>8509.436</td>
</tr>
</tbody>
</table>

| Year | May | 1610.536 | 9603.647 | 8433.531 | 9317.862 | 1799.197 | 946.072 |
| Jun | 1651.680 | 9634.655 | 8454.487 | 9295.153 | 1703.979 | 855.727 |
| Jul | 1661.492 | 9638.629 | 8454.396 | 9208.368 | 1693.704 | 841.469 |
| Aug | 1655.327 | 9588.052 | 8430.273 | 9150.741 | 1728.107 | 879.586 |
| Sep | 1665.775 | 9591.226 | 8453.922 | 9057.269 | 1819.730 | 965.266 |
| Oct | 1679.827 | 9584.714 | 8484.266 | 8971.552 | 1975.374 | 1122.200 |
| Nov | 1679.910 | 9582.939 | 8513.768 | 9040.281 | 2044.685 | 1182.377 |
| Dec | 1693.594 | 9566.720 | 8530.942 | 9006.606 | 2017.309 | 1133.527 |

| Year | Jan | 1680.953 | 9486.882 | 8471.613 | 8940.084 | 2010.106 | 1105.459 |
| Feb | 1703.192 | 9511.616 | 8539.311 | 8874.872 | 2150.916 | 1296.193 |
| Mar | 1711.982 | 9440.765 | 8517.383 | 8940.012 | 2106.530 | 1249.461 |
| Apr | 1700.244 | 9404.893 | 8529.244 | 9253.424 | 2044.306 | 1179.142 |
| May | 1707.068 | 9422.723 | 8570.349 | 9194.393 | 2034.554 | 1149.872 |
| Jun | 1727.431 | 9446.176 | 8601.129 | 9156.219 | 2024.007 | 1146.366 |
| Jul | 1731.024 | 9476.281 | 8617.286 | 9205.239 | 2015.190 | 1131.097 |
| Aug | 1751.541 | 9541.918 | 8662.621 | 9226.905 | 2014.632 | 1133.725 |
| Sep | 1774.549 | 9614.001 | 8710.243 | 9212.463 | 1981.141 | 1088.971 |
| Oct | 1783.936 | 9668.309 | 8750.240 | 9227.581 | 1998.498 | 1099.672 |
| Nov | 1820.708 | 9723.087 | 8787.352 | 9227.803 | 1991.149 | 1076.396 |
| Dec | 1830.919 | 9752.597 | 8816.956 | 9200.380 | 2009.319 | 1072.970 |

| Year | Jan | 1853.180 | 9741.227 | 8836.759 | 9176.518 | 2057.153 | 1095.882 |
| Feb | 1873.700 | 9786.412 | 8891.189 | 9131.758 | 2243.618 | 1327.530 |
| Mar | 1889.985 | 9848.457 | 8912.843 | 9128.788 | 2428.242 | 1508.466 |
| Apr | 1900.986 | 9937.833 | 8945.946 | 9165.428 | 2531.654 | 1599.246 |
| May | 1935.300 | 10033.48 | 9000.674 | 9157.988 | 2590.366 | 1627.523 |

Note: All values are given in billions of dollars. *See table of contents for changes to the series.

**We will not update the MSI series until we revise the code to accommodate the discontinuation of M3.
<table>
<thead>
<tr>
<th>Year</th>
<th>Federal Funds Rate</th>
<th>Primary Credit Rate</th>
<th>Prime Rate</th>
<th>3-mo CD Rates</th>
<th>10-yr Treasury Yields</th>
<th>Corporate Aaa Bonds</th>
<th>Municipal Aaa Bonds</th>
<th>Conventional Mortgage</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>4.96</td>
<td>5.96</td>
<td>7.96</td>
<td>5.15</td>
<td>4.85</td>
<td>4.77</td>
<td>4.79</td>
<td>5.59</td>
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<tr>
<td>2007</td>
<td>5.02</td>
<td>5.86</td>
<td>8.05</td>
<td>5.27</td>
<td>4.47</td>
<td>4.34</td>
<td>4.63</td>
<td>5.56</td>
</tr>
<tr>
<td>2008</td>
<td>1.93</td>
<td>2.39</td>
<td>5.09</td>
<td>2.97</td>
<td>1.39</td>
<td>2.24</td>
<td>3.67</td>
<td>5.63</td>
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<tr>
<td>2009</td>
<td>0.16</td>
<td>0.50</td>
<td>3.25</td>
<td>0.56</td>
<td>0.15</td>
<td>1.43</td>
<td>3.26</td>
<td>5.31</td>
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<tr>
<td>2010</td>
<td>0.17</td>
<td>0.72</td>
<td>3.25</td>
<td>0.31</td>
<td>0.14</td>
<td>1.11</td>
<td>3.21</td>
<td>4.94</td>
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</table>

<table>
<thead>
<tr>
<th>Year</th>
<th>3-mo CD Rates</th>
<th>10-yr Treasury Yields</th>
<th>Corporate Aaa Bonds</th>
<th>Municipal Aaa Bonds</th>
<th>Conventional Mortgage</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>5.27</td>
<td>4.64</td>
<td>5.06</td>
<td>5.03</td>
<td>4.85</td>
</tr>
<tr>
<td>2010</td>
<td>5.31</td>
<td>4.27</td>
<td>5.16</td>
<td>4.92</td>
<td>4.85</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Year</th>
<th>3-mo CD Rates</th>
<th>10-yr Treasury Yields</th>
<th>Corporate Aaa Bonds</th>
<th>Municipal Aaa Bonds</th>
<th>Conventional Mortgage</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>5.16</td>
<td>4.93</td>
<td>4.84</td>
<td>4.64</td>
<td>4.85</td>
</tr>
</tbody>
</table>

Note: All values are given as a percent at an annual rate.
## Percent change at an annual rate

<table>
<thead>
<tr>
<th>Year</th>
<th>M1</th>
<th>M2</th>
<th>M3*</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>0.19</td>
<td>5.25</td>
<td>4.95</td>
</tr>
<tr>
<td>2007</td>
<td>-0.15</td>
<td>6.30</td>
<td></td>
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<tr>
<td>2008</td>
<td>4.44</td>
<td>7.11</td>
<td></td>
</tr>
<tr>
<td>2009</td>
<td>14.21</td>
<td>7.88</td>
<td></td>
</tr>
<tr>
<td>2010</td>
<td>6.53</td>
<td>2.33</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Year</th>
<th>Month</th>
<th>M1</th>
<th>M2</th>
<th>M3*</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>1</td>
<td>12.72</td>
<td>18.08</td>
<td>12.45</td>
</tr>
<tr>
<td></td>
<td>2</td>
<td>11.72</td>
<td>7.85</td>
<td>3.47</td>
</tr>
<tr>
<td></td>
<td>3</td>
<td>9.08</td>
<td>0.81</td>
<td>0.92</td>
</tr>
<tr>
<td></td>
<td>4</td>
<td>5.68</td>
<td>-1.16</td>
<td>3.01</td>
</tr>
<tr>
<td>2010</td>
<td>1</td>
<td>3.39</td>
<td>-4.11</td>
<td>-0.01</td>
</tr>
<tr>
<td></td>
<td>2</td>
<td>3.03</td>
<td>-2.33</td>
<td>2.70</td>
</tr>
<tr>
<td></td>
<td>3</td>
<td>9.53</td>
<td>5.07</td>
<td>4.50</td>
</tr>
<tr>
<td></td>
<td>4</td>
<td>13.58</td>
<td>7.15</td>
<td>5.61</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Year</th>
<th>Month</th>
<th>M1</th>
<th>M2</th>
<th>M3*</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>1</td>
<td>13.34</td>
<td>3.19</td>
<td>4.34</td>
</tr>
</tbody>
</table>

*See table of contents for changes to the series.
Definitions

M1: The sum of currency held outside the vaults of depository institutions, Federal Reserve Banks, and the U.S. Treasury, traveler checks; and demand and other checkable deposits issued by financial institutions (except demand deposits due to the Treasury and depository institutions), minus cash items in process of collection and Federal Reserve float.

M2: M1 plus savings deposits (including money market deposit accounts) and small-denomination (under $100,000) time deposits issued by financial institutions; and shares in retail money market mutual funds (funds with initial investments under $50,000), net of retirement accounts.

M3: M2 plus large-denomination ($100,000 or more) time deposits; repurchase agreements issued by depository institutions; Eurodollar deposits, specifically, dollar-denominated deposits due to nonbank U.S. addresses held at foreign offices of U.S. banks worldwide and all banking offices in Canada and the United Kingdom; and institutional money market mutual funds (funds with initial investments of $50,000 or more).

Bank Credit: All loans, leases, and securities held by commercial banks.

Domestic Nonfinancial Debt: Total credit market liabilities of the U.S. Treasury, federally sponsored agencies, state and local governments, households, and nonfinancial firms. End-of-period basis.

Adjusted Monetary Base: The sum of currency in circulation outside Federal Reserve Banks and the U.S. Treasury, deposits of depository financial institutions at Federal Reserve Banks, and an adjustment for the effects of changes in statutory reserve requirements on the quantity of base money held by depositories. This series is a spliced chain index; see Anderson and Rasche (1996a,b, 2001, 2003).

Adjusted Reserves: The sum of vault cash and Federal Reserve Bank deposits held by depository institutions and an adjustment for the effects of changes in statutory reserve requirements on the quantity of base money held by depositories. This spliced chain index is numerically larger than the Board of Governors’ measure, which excludes vault cash not used to satisfy statutory reserve requirements and Federal Reserve Bank deposits used to satisfy required clearing balance contracts; see Anderson and Rasche (1996a, 2001, 2003).

Monetary Services Index: An index that measures the flow of monetary services received by households and firms from their holdings of liquid assets; see Anderson, Jones, and Nesmith (1997). Indexes are shown for the assets included in M2, with additional data at research.stlouisfed.org/msi/index.html.

Note: M1, M2, M3, Bank Credit, and Domestic Nonfinancial Debt are constructed and published by the Board of Governors of the Federal Reserve System. For details, see Statistical Supplement to the Federal Reserve Bulletin, table 1.21 and 1.26. MZM, Adjusted Monetary Base, Adjusted Reserves, and Monetary Services Index are constructed and published by the Research Division of the Federal Reserve Bank of St. Louis.

Notes

Page 3: Readers are cautioned that, since early 1994, the level and growth of M1 have been depressed by retail sweep programs that reclassify transactions deposits (demand deposits and other checkable deposits) as savings deposits overnight, thereby reducing banks’ required reserves; see Anderson and Rasche (2001) and research.stlouisfed.org/aggreg/swddata.html. Primary Credit Rate. Discount Rate, and Intended Federal Funds Rate shown in the chart Reserve Market Rates are plotted as of the date of the change, while the Effective Federal Funds Rate is plotted as of the end of the month. Interest rates in the table are monthly averages from the Board of Governors H.15 Statistical Release. The Treasury Yield Curve and Real Treasury Yield Curve show constant maturity yields calculated by the U.S. Treasury for securities 5, 7, 10, and 20 years to maturity. Inflation-Indexed Treasury Yield Spreads are a measure of inflation compensation at those horizons, and it is simply the nominal constant maturity yield less the real constant maturity yield. Daily data and descriptions are available at research.stlouisfed.org/fred2. See also Statistical Supplement to the Federal Reserve Bulletin, table 1.35. The 30-year constant maturity series was discontinued by the Treasury as of February 18, 2002.

Page 5: Checkable Deposits is the sum of demand and other checkable deposits. Savings Deposits is the sum of money market deposit accounts and passbook and statement savings. Time Deposits have a minimum initial maturity of 7 days. Retail Money Market Mutual Funds are included in M2. Institutional money market funds are not included in M2.

Page 6: Excess Reserves plus RCB (Required Clearing Balance) Contracts equals the amount of deposits at Federal Reserve Banks held by depository institutions but not applied to satisfy statutory reserve requirements. (This measure excludes the vault cash held by depository institutions that is not applied to satisfy statutory reserve requirements.) Consumer Credit includes most short- and intermediate-term credit extended to individuals. See Statistical Supplement to the Federal Reserve Bulletin, table 1.55.

Page 7: Data are reported in the Senior Loan Officer Opinion Survey on Bank Lending Practices.

Page 8: Inflation Expectations measures include the quarterly Federal Reserve Bank of Philadelphia Survey of Professional Forecasters, the monthly University of Michigan Survey Center’s Surveys of Consumers, and the annual Federal Open Market Committee (FOMC) range as reported to the Congress in the February testimony that accompanies the Monetary Policy Report to the Congress. Beginning February 2000, the FOMC began using the personal consumption expenditures (PCE) price index to report its inflation range; the FOMC then switched to the PCE chain-type price index excluding food and energy prices ("core") beginning July 2004. Accordingly, neither are shown on this graph. CPI Inflation is the percentage change from a year ago in the consumer price index for all urban consumers. Real Interest Rates are ex post measures, equal to nominal rates minus year-over-year CPI inflation.

From 1991 to the present the source of the long-term PCE inflation expectations data is the Federal Reserve Bank of Philadelphia’s Survey of Professional Forecasters. Prior to 1991, the data were obtained from the Board of Governors of the Federal Reserve System. Realized (actual) inflation is the annualized rate of change for the 40-quarter period that corresponds to the forecast horizon (the expectations measure). For example, in 1965Q1, annualized PCE inflation over the next 40 quarters was expected to average 1.7 percent. In actuality, the average annualized rate of change measured 4.8 percent from 1965Q1 to 1975Q1. Thus, the vertical distance between the two lines in the chart at any point is the forecast error.

Page 9: FOMC Intended Federal Funds Rate is the level (or midpoint of the range, if applicable) of the federal funds rate that the staff of the FOMC expected to be consistent with the desired degree of pressure on bank reserve positions. In recent years, the FOMC has set an explicit target for the federal funds rate.

Page 10: Federal Funds Rate and Inflation Targets shows the observed federal funds rate, quarterly, and the level of the funds rate implied by applying Taylor’s (1993) equation

\[
\hat{f}_t = 2.5 + \pi_{t-1} + (\pi_{t-1} - \pi^*)/2 + 100 \times (g_{t-1} - \gamma_{t-1} - \hat{f}_{t-1})/2
\]

to five alternative target inflation rates, \(\pi^* = 0, 1, 2, 3, 4\) percent, where \(\hat{f}_t\) is the implied federal funds rate, \(\pi_{t-1}\) is the previous period’s inflation rate (PCE) measured on a year-over-year basis, \(g_{t-1}\) is the log of the previous period’s level of real gross domestic product (GDP), and \(\gamma_{t-1}\) is the log of an estimate of the previous period’s level of potential output. Potential Real GDP is estimated by the Congressional Budget Office (CBO).

Monetary Base Growth and Inflation Targets shows the quarterly growth of the adjusted monetary base implied by applying McCallum’s (2000, p. 52) equation

\[
\Delta b_t = \Delta y_t + \Delta \pi_t + \lambda (\Delta y_t - \Delta \pi_t),
\]
\[\Delta \pi_t = \pi_t + \Delta \pi^* \]

to five alternative target inflation rates, \(\pi^* = 0, 1, 2, 3, 4\) percent, where \(\Delta b_t\) is the implied growth rate of the adjusted monetary base, \(\Delta \pi_t\) is the 10-year...
Moving average growth in real GDP, $\Delta v^g$ is the average base velocity growth (calculated recursively), $\Delta v_{t-1}$ is the lag growth rate of nominal GDP, and $\lambda = 0.5$.

Page 11: **Implied One-Year Forward Rates** are calculated by this Bank from Treasury constant maturity yields. Yields to maturity, $R(m)$, for securities with $m = 1, \ldots, 10$ years to maturity are obtained by linear interpolation between reported yields. These yields are smoothed by fitting the regression suggested by Nelson and Siegel (1987),

$$R(m) = \alpha_0 + (\alpha_1 + \alpha_2)(1 - e^{-m/50})/(m/50) - \alpha_3 e^{-m/50},$$

and forward rates are calculated from these smoothed yields using equation (a) in table 13.1 of Shiller (1990),

$$f(m) = \frac{D(m)R(m) - D(m-1)}{D(m) - D(m-1)},$$

where duration is approximated as $D(m) = (1 - e^{-R(m) \times m})/R(m)$. These rates are linear approximations to the true instantaneous forward rates; see Shiller (1990). For a discussion of the use of forward rates as indicators of inflation expectations, see Sharpe (1997). **Rates on 3-Month Eurodollar Futures and Rates on Selected Federal Funds Futures Contracts** trace through time the yield on three specific contracts. **Rates on Federal Funds Futures on Selected Dates** displays a single day’s snapshot of yields for contracts expiring in the months shown on the horizontal axis. **Inflation-Indexed Treasury Securities and Yield Spreads** are those plotted on page 3. **Inflation-Indexed 10-Year Government Notes** shows the yield of an inflation-indexed note that is scheduled to mature in approximately (but not greater than) 10 years. The current French note has a maturity date of 7/25/2015, the current U.K. note has a maturity date of 4/16/2020, and the current U.S. note has a maturity date of 11/15/2020. **Inflation-Indexed Treasury Yield Spreads and Inflation-Indexed 10-Year Government Yield Spreads** equal the difference between the yields on the most recently issued inflation-indexed securities and the unadjusted security yields of similar maturity.

Page 12: **Velocity** (for MZM and M2) equals the ratio of GDP, measured in current dollars, to the level of the monetary aggregate. **MZM and M2 Own Rates** are weighted averages of the rates received by households and firms on the assets included in the aggregates. Prior to 1982, the 3-month T-bill rates are secondary market yields. From 1982 forward, rates are 3-month constant maturity yields.

Page 13: **Real Gross Domestic Product** is GDP as measured in chained 2000 dollars. The **Gross Domestic Product Price Index** is the implicit price deflator for GDP, which is defined by the Bureau of Economic Analysis, U.S. Department of Commerce, as the ratio of GDP measured in current dollars to GDP measured in chained 2005 dollars.

Page 14: **Investment Securities** are all securities held by commercial banks in both investment and trading accounts.

Page 15: **Inflation Rate Differentials** are the differences between the foreign consumer price inflation rates and year-over-year changes in the U.S. all-items Consumer Price Index.

Page 17: **Treasury Yields** are Treasury constant maturities as reported in the Board of Governors of the Federal Reserve System’s H.15 release.

**Sources**

Agence France Trésor: French note yields.

Bank of Canada: Canadian note yields.


Board of Governors of the Federal Reserve System:


**References**


Note: *Available on the Internet at research.stlouisfed.org/publications/review/.

**Monetary Trends**

**Bureau of Economic Analysis**: GDP.

**Bureau of Labor Statistics**: CPI.

**Chicago Board of Trade**: Federal funds futures contract.

**Chicago Mercantile Exchange**: Eurodollar futures.

**Congressional Budget Office**: Potential real GDP.

**Federal Reserve Bank of Philadelphia**: Survey of Professional Forecasters inflation expectations.

**Federal Reserve Bank of St. Louis**: Adjusted monetary base and adjusted reserves, monetary services index, MZM own rate, one-year forward rates.

**Organization for Economic Cooperation and Development**: International interest and inflation rates.

**Standard & Poor’s**: Stock price-earnings ratio, stock price composite index.

**University of Michigan Survey Research Center**: Median expected price change.

**U.S. Department of the Treasury**: U.S. security yields.


**Note**